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## Special Analysis

### YUGOSLAVIA: Economy Threatens Government

*Yugoslavia's economic problems are exacerbating ethnic tensions and threatening Belgrade with its second change of government in less than a year. The chances are about even that Premier Markovic will be ousted or resign in the next few months, forced out by widespread anger over his failure to halt 1,000-percent inflation and regional opposition to his market-oriented reforms. His departure would virtually rule out meaningful economic reforms for the foreseeable future and strengthen Serbian leader Milosevic's bid for greater national power.*

Markovic is unlikely to have enough success in controlling inflation to rebuild his position. His anti-inflation measures—structural reform and tight monetary policies—address many of the problems underlying Yugoslavia's hyperinflation, but lack of support from the republics denies Belgrade the power to implement them. Public patience is wearing thin, as is evident in sporadic strikes and protests against the government's ineptness and falling living standards. Trade unions have warned of broader labor unrest and some regional officials have demanded Markovic's resignation if he does not soon make progress in halting the price spiral.

Markovic could probably buy time by caving into demands to use more direct measures against inflation, including wage and price controls. Such concessions—and his expected visit to the US and meeting with President Bush this fall—probably would quiet critics temporarily. But Markovic has vowed not to abandon his policies; if denied a free hand he is as likely to make good on his promise to resign, possibly at a legislative session on inflation late this month, as he is to make concessions.

### Regional Tensions Rising

Debate over Markovic's fate and his reform policies has split increasingly along republic lines, reflecting regional economic interests and Serbia's attempts to exploit difficulties. The southern republics, led by Serbia, have charged that Markovic, a Croat, and his northern allies are insensitive to the disproportionate impact of inflation and reform on the less developed south.

The more market-oriented northern republics of Croatia and Slovenia support Markovic's charge that efforts to curb inflation are being blocked by Serb politicians more interested in toppling the government than working together. They cite Serbia's plan to raise a \$1 billion "patriotic loan" for its own development as evidence.

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Milosevic's attacks on Markovic probably are meant to shift blame for Serbia's poor economy to the federal government and win greater economic concessions for Serbia. Failing that, Milosevic may hope to replace Markovic with someone more malleable. He probably believes his populist stand on inflation will broaden his appeal outside Siberia. [REDACTED]

Serbian politicians may have hesitated thus far to increase pressure for Markovic's resignation because of the support he enjoys among Western creditors, [REDACTED] Negotiations for a new IMF standby and debt reschedulings by Western governments, however, are currently stalled and could provide critics further ammunition against Markovic. [REDACTED]

#### **If Markovic Goes**

Departure of the reform-minded Markovic would dim already bleak prospects for meaningful market reform and economic recovery. No successor is likely to have Markovic's impressive business and political credentials or the widespread support at home and abroad that he initially enjoyed. Western creditors and potential investors would take his ouster as further evidence of backsliding on economic reform and of potential instability. [REDACTED]

Milosevic's track record in Serbia suggests little commitment to significant change, despite his public call for market reforms. Critics charge that his idea of centralizing power in the federal government to ensure implementation of market reforms disguises a scheme for increasing Serbian power. Milosevic probably would use Markovic's departure to seek greater influence over the premiership, making reforms increasingly hostage to the struggle for political power. [REDACTED]

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